Hearing before the Sub-Committee on National Security, International Development, and Monetary Policy of the Committee on Financial Services

How America Leads Abroad: and Examination of Multi-Lateral Institutions

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Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for this opportunity to address the topic of America's leadership at the World Bank. I served as the United States' board member at the Bank from 2015 to 2017, and I greatly enjoyed the opportunity to represent the country during that time. There is no doubt in my mind that American leadership is crucial to the Bank's success in achieving its stated goals of eliminating poverty and creating inclusive growth around the world. It is also clear to me that America's national interests can be well served by the Bank, and it can be an important instrument for achieving our foreign policy goals. To that end, I hope that this Committee continue to show strong support for the Bank and that is supports authorization of the both capital increases under discussion.

The context of these increases is important, as they have come after a series of reforms and developments at the Bank which have strengthened it and allowed it to become larger and more effective than it might be otherwise. These reforms included adoption of new "safeguards" that govern the Bank's lending to ensure that rules and processes are in place to ensure that the borrowers of World Bank monies utilize those funds according to high standards of conduct and accountability. Equally important was the issuance of debt backed by the International Development Association (IDA), because doing so allowed the Bank to double to amount of money it could lend to the poorest countries in the world. That major increase in capital was strongly supported by the countries receiving the resulting capital, and it allowed the Bank to do even more in countries that are considered "fragile", or on the cusp of economic, social, or military collapse.

What is crucial to note in this context is that the ratings agencies that gave the IDA a triple-A rating were very focused on the U.S.'s political support for the Bank while they were doing their analysis. As the U.S.'s Executive Director at the Bank at that time, they asked me repeatedly how strongly the U.S. would support the Bank and IDA in particular in the future, because if the largest shareholder of an issuer were not fully committed that would offer notable risk to the bonds' creditworthiness. I assured them that it was in the U.S.'s interests to continue exercising strong leadership at the Bank, and that was true regardless of which party were in control of the Executive and Legislative branches of our government.

Exercising leadership in this context means authorizing the capital increases, of course. But it means sending signals to other shareholders of the Bank - the majority of whom shareholders have already authorized their increases. Crucially, some that have not are waiting to see what the U.S. does, as is often the case when the largest shareholder is considering important decisions. I cannot tell you how many times other Executive Directors came to me in my time at the Bank to ask what the U.S.'s position on an issue was, because they wanted to align their own positions with us. For something as important to the Bank as these capital increases, that is doubly true.

Yet the decision to authorize is not the only thing other countries are watching. Those that are the beneficiaries of the Bank's work are also watching to see if the U.S. stands with them at this moment. It is my understanding that the Executive Directors from Africa have been particularly eager to hear this Committee's decision, as they consider the work the Bank does to be vital to their own aspirations for growth and development. And it goes without saying that many of the countries those E.D.'s represent are being offered loans from China that can be quite attractive. In my experience, many countries would prefer to work with the Bank due to the quality of its expertise, the safeguards that come with its funds, and the imprimatur of the U.S. that also attaches to those funds. Yet they have no choice but to consider all options, and the less active the Bank is, the more active other lenders will be in Africa and beyond.

A related issue is the role that the private sector can play in helping IDA countries to grow and achieve their goals. When the board moved to issue IDA debt, we wanted to be sure the Bank used those new funds in ways that would enhance its effectiveness, rather than simply doing more of what it had always done. One of the things that governments that borrow from IDA asked for was the increased participation of the private sector in their development, and they asked the Bank to consider how it might spur more private investment. The result was the Private Sector Window (PSW), which provides risk mitigation to catalyze investments that otherwise would not happen.

By using a small portion of the IDA debt proceeds to fund the PSW, the International Finance Corporation (IFC) created several financial instruments that help it to invest more money in IDA countries. It is a small start but an important one, because investors often look to the IFC to gauge whether it makes sense to invest in a particular place or in a particular project. Time and again over the years I have seen companies and investors make that assessment, and when the IFC participates it effectively leverages multiples of its own money into those places and projects.

Some would say that the better route is for governments themselves to finance their country's development, and that the private sector should not need incentives to make money. I would say, however, that those governments themselves are saying they want both public and private money supporting their growth. To that end, the Bank continues to work with many countries on improving "domestic resource mobilization", or improved tax collection, so that they can be more self-sufficient in building infrastructure, delivering quality education and healthcare, improving their legal systems, and the like. But in many of those countries much of the economy is informal, there have been legacies of tax avoidance, and the norm is often that just 12-15% of GDP is collected in taxes. That compares to the 25-35% that is collected in most vibrant, economically developed countries.

As a result, the private sector's involvement in development programs is necessary and is being demanded. The impulses that have driven America's success over the years, including the impulses to innovate and to create wealth, are no less present elsewhere. It is the Bank's role, and IFC's role, to lead the way and to strengthen institutions in developing countries, including through drawing more private investment into markets that they currently shun - so that IDA countries can graduate out of IDA, and eventually graduate from receiving any monies from the Bank at all. Korea is an exemplar of just this progression, moving from a country that even IDA didn't want to lend to in the early 1960's to one that now has one of the strongest economies in the world and has been a steadfast ally of the United States for decades. Our goal in providing leadership at the Bank and beyond should be to see that success carried out in other countries time and again. By authorizing the capital increases in front of you, we will take one more step in doing so.

I thank you for the opportunity to be here today, and I look forward to any questions you might have.